

## **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

**May 15, 2001**

The Capital Projects and Bond Oversight Committee met on Tuesday, May 15, 2001, at 10:00 AM, at the University of Louisville. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Bob Leeper, Vice Chair; Senator Bob Jackson; and Representatives Paul Marcotte and Jim Wayne.

Guests testifying before the Committee: Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management, Finance and Administration Cabinet; President John Shumaker and Larry Owsley, University of Louisville; President Gary Ransdell, Western Kentucky University; Teresa Suter, Jeanne Baldwin, and Randell Hancock, Cabinet for Families and Children; and Chuck Knowles, Transportation Cabinet.

LRC Staff: Mary Lynn Collins, Pat Ingram, Kevin Mason, Nancy Osborne, and Shawn Bowen.

Chairman Haydon thanked the University of Louisville (U of L) for hosting the committee's monthly meeting. He said U of L is a beautiful campus, and the committee was looking forward to touring it later. He then introduced Dr. John Shumaker, President of U of L.

Dr. Shumaker welcomed the committee to U of L. He briefly discussed the impact of the 1997 Special Session's House Bill 1 to advance the mission of U of L as a metropolitan research university.

Dr. Shumaker said that within the last four years, the state has invested approximately \$66 million in the Research Trust Fund (Bucks for Brains Program) at U of L, and through private donations, the school has leveraged that into \$123 million. He said the university's endowment in 1995 was \$183 million; as of March 31, 2001, it was \$479 million. Dr. Shumaker said the university's primary goal for the next session of the General Assembly is another research building at the Health Sciences Center.

In response to a question from Representative Wayne, Dr. Shumaker said U of L just finished matching the second Bucks for Brains appropriation, and he was confident that if U of L receives a third appropriation, they can match it also. He said if the Bucks for Brains Program continues over the next several years, both the University of

Kentucky and the University of Louisville will be preeminent research universities within the next ten years.

Representative Marcotte thanked Dr. Shumaker for his report and asked how many patents U of L has, what type of revenue they bring in, and how the funds from the patents are used. Dr. Schumaker said the university has a significant number of patents and licenses and gives a very generous amount of the patent money back to the researcher. He indicated he would follow up with additional information on patents later.

Chairman Haydon said he was impressed with what is taking place at the university and pleased to have been part of the 1997 higher education reform effort. He then recognized Senator Marshall Long in attendance at the meeting.

Senator Jackson made a motion to approve the minutes of the April 17, 2001, meeting as submitted. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon said enclosed in members' folders were several correspondence items. Representative Wayne commented on correspondence regarding the Kentucky Lottery Corporation. He said there is over \$2.2 million in the Housing Trust Fund from unclaimed lottery winnings, and there may be groups in members' districts that qualify for the money. He encouraged those groups to contact the Kentucky Housing Corporation to apply for that money.

Senator Leeper requested an update from the Kentucky Lottery Corporation at the committee's June meeting regarding the lottery's new instant ticket probability game, which was reviewed by the committee in the fall of 1999.

Chairman Haydon said last month that the committee deferred action on two leases for the Cabinet for Families and Children (CFC): PR-4432, Shelby County, and PR-4487, Letcher County. The cabinet was asked to provide committee members with more information about the leases and the CFC Workplace Improvement Initiative. Secretary Viola Miller prepared a report on that initiative, and it was mailed to members prior to this meeting. Chairman Haydon called on Teresa Suter, the cabinet's Executive Director for Program Support, to present that report.

Ms. Suter said Secretary Miller was unable to be present at the meeting because of a work retreat with the Governor and the other cabinet secretaries. She introduced Ms. Jeanne Baldwin, CFC Budget Director, and Mr. Randall Hancock, CFC Leasing Liaison. Ms. Suter said the Workplace Improvement Initiative came out of a request for a budget increase made last session to improve the cabinet's poorest office space across the state. The request was not funded, but the General Assembly did authorize the cabinet to spend

approximately \$500,000 in the first year of the biennium and \$1.4 million in the second year on lease expansions.

Ms. Suter said the cost of leasing space for CFC is approximately 5 percent of the Department of Community-Based Services' budget. She said that the cabinet addresses space needs out of the operating budget and there is no shifting of funds from the benefits program for CFC clients. Ms. Suter said if the cabinet tried to do otherwise, they would have to request a budget modification, which the cabinet has not done. She said the cabinet's request for the Workplace Improvement Initiative is strictly for space needs due to overcrowding, possible rat infestation, safety/health issues, or environmental air-quality issues. Ms. Suter said that based on Secretary Miller's report transmitted to the committee, CFC had 18 Workplace Improvement Initiative projects in the current fiscal year and has not exceeded the \$500,000 limit set by the General Assembly.

Representative Wayne noted that 50 percent of the money for the Workplace Improvement Initiative comes from the federal government. He asked if the federal money is specifically designated for administrative costs. There are multiple federal sources for the initiative, and the rules vary. In several of the federal programs, funds for administrative functions are specifically allocated.

In response to another question from Representative Wayne, Ms. Baldwin said none of CFC's programs are exempt from the provisions of the recent state budget cut. She said that in the current fiscal year, the cabinet was asked to take a General Fund reduction of approximately 4 percent, or \$7 million.

Representative Wayne asked if CFC will have to cut its staff to comply with the provisions of the Governor's Budget Reduction Plan. Ms. Baldwin said CFC chose to accomplish the budget cut in a variety of ways. Approximately 20 staff positions, primarily administrative positions, will not be filled. They also took funds that had not been used from various programs. Ms. Baldwin said they targeted budget cuts that would not impact clients.

In response to another question from Representative Wayne, Ms. Suter said the Workplace Improvement Initiative is a very high priority for the cabinet. Cabinet offices in which three or four workers share one office are not suitable to deal with complex family issues, including child abuse, sexual abuse, drug abuse, and mental health issues. She said such issues are of a sensitive nature and confidentiality is so crucial that Secretary Miller considers workplace improvements a top priority.

Senator Jackson made a motion to approve the two leases for CFC. The motion was seconded by Representative Wayne and passed by voice vote.

Representative Wayne explained his vote. He said this is a difficult time for the cabinet and having seen the facilities in which CFC employees work, the message the state would give to poor people by improving these facilities is important.

Chairman Haydon said Western Kentucky University (WKU) President Dr. Gary Ransdell asked to be included on the committee's meeting agenda to brief the members on a proposal to renovate E.A. Diddle Arena. Chairman Haydon said that because time is short, President Ransdell agreed to give a brief overview and then come back to the committee in June for further discussion.

Dr. Ransdell said he appreciated the opportunity to brief the committee on the E.A. Diddle Arena project. He said he vowed not to bring to the state the problems that relate to an athletic facility. Therefore, the university has worked hard for the last 18 months to find a way to improve its athletic arena, which is nearly 40 years old. Diddle Arena was opened in 1963 as WKU's primary basketball venue. Since that time, it has never been air-conditioned or renovated.

Dr. Ransdell said that after talking with Finance and Administration Cabinet Secretary Kevin Flanery several months ago, the university began contemplating several options, including one similar to the Student Life Foundation residence hall renovation, which the committee approved last year. Dr. Ransdell said a feasibility study for a new facility or renovation of Diddle Arena was completed. That study, financed by the City of Bowling Green, Warren County Fiscal Court, and the WKU Athletic Foundation, suggests renovation is the proper course of action. After extensive discussions with the City of Bowling Green, WKU agreed to convey title of Diddle Arena and appropriate real estate on which the arena sits to the City of Bowling Green. The City will issue General Obligation Bonds for a \$26.5 million renovation project, plus the cost of financing. Dr. Ransdell said the City of Bowling Green will enter into a management contract with WKU for the day-to-day operation of the facility so that WKU will continue to program the facility. Non-state athletic revenue generated by the building, including ticket sales, suite leases, concessions, parking, and related income, will be transferred to the City of Bowling Green to help defray the cost of the annual debt service. Dr. Ransdell said the university and the Commonwealth will have no direct or indirect obligation for the renovation cost or the issuance of these bonds, and the debt rating for the state or the university will not be affected.

Dr. Ransdell reiterated WKU wishes to solve a problem without coming to the state for money. He said in order to secure the revenue streams for this project, WKU has sold executive suites that would be built as part of the renovation. WKU is working with the Louis and Henry architectural firm in Louisville, which did a similar renovation of Freedom Hall.

Dr. Ransdell said this project will be completed between April and September of 2002, which means all design and pre-fabrication work must be done by the end of the next basketball season. He said the city can issue General Obligation Bonds if it owns the facility and it is in Kentucky; cities regularly issue debt without affecting the state's credit rating. This facility has for 38 years been a major economic driver in Bowling Green, and the city is very interested in helping to improve the facility to sustain that important tax base. He said they have created a great public partnership and are working with Secretary Flanery's staff to develop a management agreement and other documents. Dr. Ransdell said they intend to come back to the committee at its June meeting with the finished documentation.

Chairman Haydon said he appreciated Dr. Ransdell appearing before the committee and applauded his innovation at a time when state revenues are in decline. He said the committee would not entertain any questions today, but he encouraged members to contact staff if they had questions they wanted to submit to Dr. Ransdell.

Representative Wayne requested that Finance Cabinet Secretary Kevin Flanery, Council on Postsecondary Education President Dr. Gordon Davies, and Attorney General Ben Chandler be asked to work together to review the legal parameters of this proposal and report back to the committee in June.

Senator Leeper requested that the City of Bowling Green also answer questions regarding the transfer of the arena.

Dr. Ransdell said the city manager, the mayor of Bowling Green, and the City's financial officer are in close communication with his staff as various documents are being prepared. He added he would arrange to have all parties the committee deems appropriate at the June meeting.

Chairman Haydon then introduced Mr. Bill Hintze, Deputy Budget Director of the Governor's Office for Policy and Management (GOPM) and Commissioner Armond Russ, Department for Facilities Management, to discuss a project report submitted by the Finance and Administration Cabinet.

Mr. Hintze reported two allocations authorized for the Economic Development Cabinet in the 2000-02 budget from the High-Tech Construction Pool for Western Kentucky University. The first is an allocation of \$1 million to construct an Integrated Applications Laboratory for the South Central Kentucky Technology Center. This project received line-item authorization from the 2000 General Assembly in the amount of \$4 million from the Economic Development Bond Pool. The revised project scope is \$5 million.

Mr. Hintze reported WKU also received \$4 million from the High-Tech Construction Pool for an Innovation and Commercialization Center. The university plans to use \$2.3 million to acquire ownership of the former Bowling Green Mall, located across from the South Campus. The remainder of the grant funds will be used to fund Phase I renovation of the mall.

Chairman Haydon said no further action by the committee is needed for this project.

Mr. Hintze next discussed the McCracken Regional Juvenile Detention Center project. The facility was authorized by the 1996 General Assembly at a scope of \$4,300,000 and was completed last year. Once built, a decision was made to use the funds remaining from the original budget to build four new classrooms and convert two existing classrooms to a dining room.

Mr. Hintze said a decision was made when the second bid came in over budget to pledge \$100,000 in available federal funds to the project. When the contractor would not hold his bid to allow the cost overrun to be presented to the committee, Secretary Flanery approved the bid. He said the Secretary does not normally approve overruns without committee review, but occasionally they have to do this.

Representative Wayne asked why this project was not brought to the committee in March. Mr. Hintze said they did not have the final acceptable reviewed bid at that time. A decision had not yet been made, so there was nothing to report at that time.

Representative Wayne said that according to the information the committee received, the Finance and Administration Cabinet held the bid for over 60 days. Commissioner Russ said the contractor normally will guarantee his price for 30 days in case of inflation or other uncertainties. Commissioner Russ said in this instance, because they had some money problems and other issues associated with cost of the bid, they asked the contractor for an extension. The contractor extended the bid 60 days, but was unwilling to hold it any longer.

Representative Wayne said this kind of situation should be avoided.

Chairman Haydon said this project had already been approved by Secretary Flanery and no further action by the committee is necessary.

Mr. Hintze then discussed a federally funded scope increase for the Hazard State Police Post project. This project was authorized by the 1998 General Assembly for \$1,450,000. He said the bid came in over budget by a total of \$148,000. He said the Kentucky State Police (KSP) have identified federal funds from the Asset Forfeiture Program to support the scope increase and accept the low bid. The contract was awarded,

but they asked the contractor to delay work until the committee reviewed the scope increase.

Representative Wayne asked why the bids for this project were not received until 2001, even though the project was authorized in the 1998 budget. Mr. Hintze said this scheduling is fairly typical for a line-item project.

In response to another question by Representative Wayne, Mr. Hintze said the timing on the committee meeting and the timing on their reports is a constant juggling act. He said they have a ten day scramble between one committee meeting and the next to pull everything together and present it to the committee staff so they have the two-week interval allowed by statute to review it. Mr. Hintze said this does not mesh routinely or easily, but they make it work and have made it work for a long time.

Representative Wayne asked if the time frames need to be adjusted. Mr. Hintze said Secretary Flanery has expressed interest in seeing if the time frames could be made smoother for all concerned. Representative Wayne said contractors need to understand that the committee plays a very important role in the process.

Commissioner Russ said the KSP tried to locate its new state police post near an interstate highway. There were some acquisition issues that slowed things down and that is why the project is behind. Mr. Hintze said the contractor was willing to honor the low bid, but not commence work until the committee met. He said they had enough money in the project account to award the contract. However, no money was left in the budget for contingencies, and they are now seeking approval to add the federal funds to the project account to restore the contingency budget. He also noted the difficulty of estimating costs for projects in Eastern Kentucky.

Representative Marcotte asked if it would be helpful if the committee meeting was held one week later or earlier. Mr. Hintze said he was not sure that would help. Representative Marcotte recommended that Mr. Hintze and Ms. Collins discuss the meeting schedule.

In response to a question from Senator Leeper, Mr. Hintze said the old KSP post in Perry County is owned by the state. Mr. Jim Abbott, Director, Division of Real Properties, said that they plan to surplus the building and that the Transportation Cabinet has expressed interest in acquiring it for a district highway office. In the absence of funds, they are proposing to do some in-kind work for the KSP.

Senator Jackson made a motion to approve the scope increase for the Hazard State Police Post project. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$1,598,437.

Mr. Hintze then discussed the Kentucky Accident Report System known as CRASH (Collision Report Analysis for Safer Highways) for the KSP. This project was funded by the 1998 General Assembly at a scope of \$2,500,000 (\$1,587,000 bond funds and \$913,000 federal funds) and received a federally funded scope increase of \$300,000 in August 2000. Mr. Hintze said this is a multi-phase project. To complete the fourth and final phase, the KSP has secured federal Highway Traffic Safety funds of \$200,000. Mr. Hintze said these funds will be used for the development of remote scanning processes for outside law enforcement agencies to transmit reports to the KSP.

Senator Leeper made a motion to approve the scope increase. The motion was seconded by Senator Jackson and passed by voice vote. The revised project scope is \$3,000,000.

Mr. Hintze reported a \$1.8 million scope increase for the new Transportation Cabinet Office Building to include in the new building's design a Statewide Transportation Operations Center (STOC). Mr. Hintze said the STOC is a technology-based system that monitors activity such as accidents, inclement weather, and road construction from a single location in Frankfort. He said it monitors whatever is happening on Kentucky's highways that affects motorists or emergency operations.

Mr. Hintze said 80 percent of the \$1.8 million will be federally funded and the balance will come from the Road Fund. Presently, there is a STOC on the eighth floor of the existing Transportation Building. Space is available in the new building to accommodate the STOC, but to install the necessary technology will require an additional investment of \$5.3 million. Mr. Hintze said that the project is not being presented to the committee now, but will be presented to the 2002 General Assembly.

Representative Wayne said he was hesitant to approve this project since the state is facing major budget shortfalls. He said the cabinet should present it, including design, to the General Assembly in January to be reviewed in the context of the other budget priorities.

Mr. Hintze said the federal funds are available for 80 percent of the design needs. He said they would rather put the money to productive use now with the committee's concurrence and present the rest of the project to the General Assembly during the next session. He said they would have a better chance of getting the remainder of the project financed by the federal government if the committee is supportive of the project and there is a new building designed to accommodate this kind of facility. He said he understood that in the interim, the committee prefers that not too many initiatives be launched; however, he noted that the statutes do permit this. He said that in this case, it is a high priority for Transportation Secretary Codell, it is endorsed by Secretary Flanery, and it will help the motoring public and the emergency operations of Kentucky government.

Commissioner Russ said they are now completing the design for the Transportation Cabinet Building and expect to go to bid in early fall. Since the STOC will be such a major part of the building, they felt the need to have adequate design information. He said if it is delayed, the cost will go up in the future.

Representative Wayne reiterated that the committee should delay this project because there is a major budget shortfall. The General Assembly will have to weigh a lot of different issues in January, and approving the design would set in motion this major project. He said it sounds like a wonderful idea, but there are severe budget problems, and the entire project should be placed before the 2002 General Assembly.

Mr. Hintze said he would never downplay the significance of the revenue shortfall. Although the state cannot apply federal funds to solve the budget problems, he said that federal funds (80 percent) can be applied toward this project.

Representative Wayne said there are already other programs eligible for federal funds, such as alcohol and drug programs, that go unfunded because there is not enough state money available to match the federal funds. Mr. Hintze responded that it is a better argument to use non-recurring federal funds, as in the cost for STOC, rather than using non-recurring funds for ongoing expenditures. However, he said, he appreciated and understood Representative Wayne's comments.

In response to questions from Senator Jackson, Mr. Hintze acknowledged that the Road Fund had a shortfall this year of approximately \$50 million and that they are looking at another shortfall next year. The major taxes, the motor fuels, and the usage tax are not bringing in the estimated amount of revenue, so the state will have to do some belt-tightening. Transportation Cabinet Secretary Codell is mindful of the burden he will have in managing the shortfall, but he continues to feel that the STOC is a significant priority for the cabinet.

Senator Jackson said he understood and agreed, noting that he had seen very few bad projects come before the committee. However, he said, Representative Wayne made a good point, and it is only prudent and responsible to look at these things in total. He suggested they should avoid new projects that could potentially affect Road Fund expenditures.

Mr. Charles Knowles, Director, Division of Operations, Transportation Cabinet, pointed out the cost benefits of a STOC. He said the Maryland Statewide Operations Center found a five-to-one cost-benefit ratio, and a similar evaluation done for the Metropolitan Traffic Management System in Cincinnati and Northern Kentucky showed a twelve-to-one cost-benefit ratio. He emphasized that the STOC will provide a service to the rural parts of the state that the urban areas already have.

Senator Jackson said no one on the committee is questioning whether or not this is a good project. He said it is a matter of the serious budget issues facing the Road Fund and the General Fund. Senator Jackson said he thought a delay of six or seven months would not hurt this project. Mr. Hintze said it would actually be 11 months until the budget is enacted. Mr. Knowles stressed the matter of timing since the architect is finishing the design of the new Transportation Cabinet Office Building.

Chairman Haydon said it sounded like the real question was one of design and whether or not we should incorporate this idea into the design work on the new building. Commissioner Russ said they believe it will save a considerable amount of money as well as time if the STOC design is incorporated now. He said they have provided space in the new proposed building, but they need additional design expertise for technology installation. He said they thought it would be a cost-saving measure to incorporate pieces of this project now, but that he also understood the budget concerns.

Senator Leeper said the most pertinent point is the Road Fund. He said members are concerned about how they are going to deal with a shortfall in the Road Fund. The wiring necessary for the STOC can be added at another time.

Senator Jackson made a motion to ask Secretary Flanery to hold the project in abeyance until the legislature considers the 2002-04 budget. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Hintze then reported a federally funded cost overrun for the Natural Resources and Environmental Protection Cabinet's Division of Forestry radio system. This project was approved as a line-item project by the 2000 General Assembly at a scope of \$1,504,000. He said the project has been bid and the project came in \$150,000 over budget. Mr. Hintze said the U.S. Forest Service has a fund available for fire-system preparedness, and they have agreed to fund the additional \$150,000.

Representative Wayne asked why the Forestry System needs to use a radio system when cellular phones are ubiquitous. Mr. Hintze said they are not as reliable for the kind of communication needed for the fire lines in the field. He said that while cellular phones work in most places, there are some places where they do not work.

Senator Jackson asked when the radio system will be operational. Ms. Melanie Bailey, the cabinet's budget officer, said that October 1, 2001, is the anticipated start date.

Senator Jackson made a motion to approve the scope increase. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$1,654,000.

The final project Mr. Hintze reported was for the Kentucky School for the Deaf. The school plans to repair and replace the Kerr Hall HVAC system and will submit this project in the 2002-04 budget process. Mr. Hintze said they need to do the design and specifications now using Maintenance Pool funds of \$175,000. Since they have depleted their Maintenance Pool funds for the current year and do not have access to the FY 2001/02 money until July 1, the Department has requested an advance against those Maintenance Pool funds.

Chairman Haydon said no action was required for this information item.

Chairman Haydon said, because of limited time, the committee would deviate from its routine review, and the remaining agenda items requiring action would be voted on as a group. He noted that members had received information on the items prior to the meeting.

Senator Jackson made a motion that all action items on the agenda be approved. The motion was seconded by Senator Leeper and passed by voice vote. They were:

(1) Two project reports submitted by Murray State University (MuSU): MuSU Development and Alumni Affairs Center project - \$112,500 cost overrun (restricted funds); and the Hart Hall Waterline Replacement project and other emergency repairs at Hart, Franklin, White, and Regents Hall - \$1,500,000 (Council on Postsecondary Education Agency Bond Pool).

(2) A New Kentucky Infrastructure Authority Fund F loan for the City of Pineville, Bell County - \$179,992.

(3) A New Economic Development Bond Pool project for the Logan County Fiscal Court - Auburn Hosiery Mills, Inc. - \$264,000.

(4) Five new bond issues:

(1) Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, Series 2001 - \$603,720,000.

(2) Eastern Kentucky University Housing and Dining System Revenue Bonds, Series N, dated May 1, 2001 - \$2,245,000.

(3) Murray State University Housing and Dining System Revenue Bonds, Series O, dated May 15, 2001 - \$1,700,000.

(4) Kentucky Economic Development Finance Authority (KEDFA) Medical Center Revenue Bonds, Series 2001 (Ashland Hospital Corporation, doing business as King's Daughters' Medical Center project) - \$17,500,000.

(5) KEDFA Variable/Fixed Rate Demand Industrial Building Revenue Bonds, Series 2001 (Valley View Landfill and Epperson Waste Disposal Inc.) - \$8,500,000.

Chairman Haydon introduced Mr. Larry Owsley, Vice President for Finance and Administration, U of L, to discuss the university's capital construction program. Mr. Owsley said the university has a master plan it has been following for many years.

Mr. Owsley said when U of L came into the state system in 1970, the school had only about 8,000 students, and the existing campus was approximately one-third the size it is now. Since 1980, the school has had 43 major capital projects for a total expenditure of about \$313 million, \$101 million of which is from private funds. He then discussed the Belknap Campus, the Health Sciences Center, and the Shelby Campus.

Mr. Owsley said the university's main priority during the next regular session is a third medical research building downtown. He then distributed a chart detailing the university's capital renewal expenditures since 1992.

Representative Marcotte asked if sprinkler systems were installed in the dormitories. Mr. Owsley said sprinklers were installed in the high-rise buildings before the 1998 fire at Murray State University, and there are three buildings remaining where sprinklers will be installed this summer.

With there being no further business, the meeting adjourned at 11:50 a.m.